

EXECUTIVE SUMMARY - CIP BUDGET RECOMMENDATION FOR 2017

The Capital Improvement Program (CIP) is comprised of several categories:

- Wet Weather Improvement Program (WWIP)
- WWIP Allowances
- Local and Lateral Projects
- Asset Management Projects
- Asset Management Allowances, and
- Program Contingency.

The County provided MSDGC Guidance for the preparation of the CIP on June 1, 2016 and the MSDGC Rules and Regulations provide further information requirements to afford the County an opportunity to perform an adequate review of the proposed CIP projects. The MSD Rule Section 2405-12 requires MSD to submit the 2017 CIP budget to the County by Mid-June, 2016. MSD submitted the Draft 2017 CIP Budget on August 15, 2016 in accordance with the 1968 Agreement.

The County provided MSDGC a budget submittal completeness review on September 9, 2016 indicating to MSD that the budget submittal lacked a significant amount of required information. On September 10, the MSD Director stated that no further information would be provided and that the County should make its budget determination based on the MSD information submitted to date.

Based upon the information MSD provided August 15, 2016 and supplemental information provided September 17, the County submitted to MSD a revised 2017 CIP Budget with questions and comments on October 21, 2016. On October 28, MSD provided the County a list of five general comments and stated specific project responses would be provided by November 4. MSD scheduled a review meeting with the County for November 9. MSD did not provide any additional information until that meeting, and the information only provided responses for non-allowance projects. Subsequent to the meeting, MSD provided the County additional responses on the allowances. The County has incorporated this information to the degree possible given that MSD provided this information only days before the County finalized its current recommendations.

The County reviews projects in light of which projects have higher priority within a framework that minimizes rate increases. Based on the insufficient and/or late arriving information that MSD provided for the CIP budget request, the County had to rely on historical information and their knowledge of the WWIP requirements and their understanding of the District's Asset Management needs to provide the CIP budget recommendations.

On November 17, 2016, the County completed its assessment of MSD's CIP budget. Approximately \$62.7 million (44 of 98 projects) in total cost out of the submitted \$202.2 million had sufficient information to be included in the CIP. The MSD submission included 22 projects that were carry overs from the 2016 CIP in the amount of \$63.8 million because MSD was not able to execute these projects in 2016 as scheduled. The County added 3 more 2016 CIP projects to the 2017 CIP (totaling \$114.1 million), because MSD did not advance these projects in accordance with the 2016 CIP schedule. The largest of these three projects is the Lick Run VCS (\$112.1 million). MSD is not able to execute this project in 2016 as scheduled. To more fully align and provide sufficient

funding for immediate asset management expenditures and planning and design of future asset management projects, the County reduced 4 MSD requested allowances and added 5 new allowances totaling \$13.55 million. The resulting total CIP budget request is \$304.5 million. The details of the CIP budget that will be recommended to the Board follows:

A. WWIP Projects

MSD requested 17 WWIP projects in its submission. The Monitor is recommending that all of the projects proposed by MSD be included in the CIP. In addition, the County added the WWIP LMCP (Lick Run VCS) project and 2 Integrated Watershed Action Plan (IWAP) projects that were not executed in 2015 or 2016 as planned. Despite BoCC resolution, MSD has refused to advance and perform these IWAP projects. However, 11 of these projects should be conditionally approved because of remaining unanswered County questions that must be resolved before the County is prepared to recommend release of the project funds.

There are 20 projects with a cost of \$185.8 million. The Lick Run Valley Conveyance System project accounts for \$112.1 million of this total.

B. WWIP Allowances

The WWIP allowances are recommended to be funded at the MSD requested level. One exception is the Wet Weather Program Management and Support account. The County has determined that some of the tasks within the PMC should be funded differently due to delays in allocating the costs to the appropriate projects. It is possible for MSD to fund the consultants out of the operating budget and any capital expenditures would be transferred to the appropriate project. In addition, the Board has indicated that the program management costs should be budgeted within individual projects.

There are 8 WWIP allowances for a total cost of \$20.2 million.

C. WWIP - Locals and Lateral Projects

The local and lateral sewer projects address issues with individual home sewage treatment systems. There are 17 projects representing a total cost for either design or construction of \$4.0 million. The County is recommending funding of the requested projects.

D. Asset Management Projects

MSD proposed 40 asset management projects. The County added one project (SSO 700 Facilities Improvements at \$8.6 million). Funding for a total of 35 asset management projects is recommended by the County representing a total cost of \$53.6 million. However, 18 of these projects should be conditionally approved because of remaining information that the County needs to receive before the County is prepared to recommend release the project funds.

E. Asset Management Allowances

The County is recommending funding for 5 of the 9 allowances originally proposed by MSD. The County is also recommending splitting one allowance into two allowances, for consistency with past practice. The Water Quality Program is not recommended and the work required for this should be performed as part of the IWAP projects. The Centralized Grit Handling and Processing

Facility is a project proposed without a Business Case Evaluation. The Facilities Asset Management Projects allowance and the Wet Weather Facilities Asset Renewal 2017 allowance are recommended to be submitted as individual projects under the new Critical Asset Management allowance, described below.

The County recommends 2 new asset management allowances to be included in the CIP. One is an allowance for funding additional Critical Asset Management, recommended to be used for the most critical assets. The amount recommended is \$10 million. The second new allowance is a Planning Allowance (\$1.5 million) to be used for significant individual planning efforts.

The total amount recommended for the asset management allowances is \$30.9 million. The total of the asset management accounts (allowances and specific projects) is approximately \$84.5 million. Other projects proposed for asset management did not have the level of documentation to warrant being included in the CIP.

F. Program Contingency

Program contingency for the entire CIP is included. As of 2014 and going forward, the contingency line item was removed from each project and accumulated in the program contingency account. The amount recommended for the account is \$10.0 million.

G. Project Execution

As stated in prior periods, the County continues to be concerned about MSD's project delivery performance. As shown in the chart below, MSD has historically not delivered the majority of the projects it has requested in the annual CIP. This has resulted in underspending its forecasted funds. This performance requires the County Administration to assess the viability of the performance of the CIP, and make rate recommendation adjustments accordingly.

